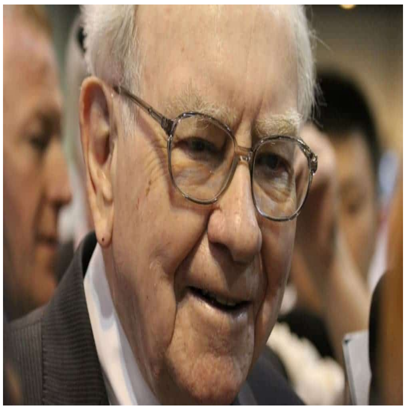

Net-Net Stocks: How Warren Buffett Got Rich

Description

When you think of “Warren Buffett” stocks, you most likely think of stocks like **Apple**, **Coca-Cola**, and **Amazon.** The “Oracle of Omaha” is famed for his ability to outperform the market, despite owning popular stocks that everybody knows about. And it’s true that Buffett has outperformed recently: over the last year, he is 12.7% ahead of the S&P 500 (the index of the 500 biggest stocks in America).

However, Buffett’s success in his early days was not built on well chosen “household names.” Rather, it was built on net-net stocks — that is to say, stocks that trade below their net working capital. Such stocks trade for less than the net value of the assets they can quickly sell, which means they can pay investors off in the event that they go bankrupt. Warren Buffett returned 30% per year buying these kinds of stocks.

In this article, I’ll explore how you can find them.

What is working capital?

“Working capital” is an accounting term that means current (i.e., short term) assets minus current liabilities. You take your cash and other “short-term” assets and subtract short-term debts, leaving you with working capital. If the amount of working capital per share is higher than the stock price, then buying the stock gives you more than you paid for.

How to find a net-net stock

If you want to find net-net stocks, there are many ways to go about doing it.

The easiest is to use a stock screener. A stock screener is a software tool provided by brokers and other websites that lets you search for stocks with various characteristics. Simply enter “low price-to-working-capital ratio” as a screen criterion, and you should find some net-net stocks. Not all stock screeners are sophisticated enough to screen for such a specific ratio, so make sure you shop around.

Second, you could look for tips. There are plenty of value investing websites on the internet where people share stock ideas. A great example is Joel Greenblatt's Value Investors' Club. The investors in these communities are very interested in cheap stocks, and they discuss net-nets pretty frequently.

Third, you can look at value investors' portfolio disclosures. Most big value investors, like Warren Buffett, Li Lu and Charlie Munger, are portfolio managers who have to disclose their holdings publicly. Using a site like Whale Wisdom, you can easily find what they're buying. Among their holdings, you may find a net-net stock or two.

An example of a net-net stock

One Canadian net-net stock is **Jemtec**. It's an electronic surveillance company that's only worth $4.4 million, despite having $23 million in working capital. It's worth looking into, but being such a tiny company, there's not a great amount of info about it out there.

One stock that's not quite a net-net but pretty close is **Cascades** (TSX:CAS). It's a Canadian pulp and paper company that's best known for selling Cascades toilet paper. The company's revenue has been rising steadily over the years, although its profit has been going down due to rising costs.

Certainly, there are real risks here. But with a $878 million market cap, CAS is not even trading at twice its net working capital ($476 million). This stock isn't quite a net-net, but it's cheap enough that it might be worth a look.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CAS (Cascades Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing

Date
2025/07/06
Date Created
2022/09/06
Author
andrewbutton